THE ALGOMA STEEL CORPORATION, LIMITED

ANNUAL REPORT 1976

Contents

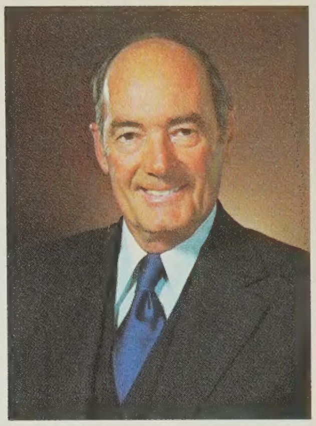
Annual Meeting

The Annual Meeting of Shareholders will be held at the Windsor Park Hotel, Sault Ste. Marie, Ontario, Thursday, April 14, 1977 at 2:15 p.m. Eastern Standard Time. A formal notice of the Meeting, an information circular and a proxy will be mailed separately.

Les personnes qui désirent recevoir ce rapport annuel en français peuvent se le procurer en écrivant au Secrétaire, The Algoma Steel Corporation, Limited, Sault-Sainte-Marie, Ontario.

Highlights of 1976

		1976	1975	Per Cent Change
		(dollars and tons in thousands except per share data)		
Sales	$	**584,835**	541,463	+ 8
Earnings before equity in earnings of associated company and extraordinary items—total	$	**8,554**	26,868	−68
—per common share	$	**.39**	2.30	
Earnings before extraordinary items—total	$	**23,724**	37,457	−37
—per common share	$	**1.69**	3.21	
Net earnings—total	$	**23,724**	42,811	−45
—per common share	$	**1.69**	3.67	
—per cent of average total investment	%	**5.3**	8.0	
Cost of products sold as per cent of sales	%	**89.8**	85.1	
Common dividends paid—total	$	**12,838**	16,338	−21
—per common share	$	**1.10**	1.40	
Additions to fixed assets excluding leased equipment	$	**51,381**	104,523	
Depreciation and amortization	$	**33,036**	29,331	
Long term debt at year end	$	**264,238**	260,226	
Production—iron	N.T.	**2,806**	2,624	+ 7
—raw steel	N.T.	**2,888**	2,748	+ 5
Shipments—steel products	N.T.	**2,036**	1,968	+ 3
Approximate number of common shareholders at year end	No.	**10,542**	11,536	



D. S. HOLBROOK
Chairman

JOHN MACNAMARA
President and
Chief Executive Officer

Letter to Shareholders

The recession which plagued the steel industry in 1975 was expected to be followed by increased demand in the latter half of 1976. However, the apparent recovery gave way to a slump in steel demand around mid-year resulting in a good deal of the industry operating considerably below rated capacity at year end. The North American steel industry consequently entered 1977 under somewhat similar conditions as one year ago—facing a stagnation in demand in a number of important markets and looking for an upturn in the economy and steel markets as the year advances.

Although production, shipments and sales reached record levels Algoma experienced a disappointing year in 1976 with a pre-tax loss being suffered. Net earnings resulted from a large income tax credit and a substantial contribution to earnings from the Corporation's 43 per cent interest in the earnings of Dominion Bridge Company, Limited. Dominion Bridge has proven to be an excellent investment for Algoma. Its future prospects and those of its United States subsidiary AMCA International Corporation are very good and this investment represents a stabilizing diversification for Algoma from the basic steel business.

The unsatisfactory financial results were due to a number of serious equipment problems encountered at the Steelworks, which are noted in this Report, unfavourable product mix and weak markets for several of the Corporation's rolled steel products. In face of these results and reduced cash flow, capital expenditures were reduced by deferment of projects and economy measures were effected throughout the Corporation to conserve funds and reduce costs.

Steel imports into Canada were below the levels of 1975, however, this steel generally was offered at distressed prices which, together with the market conditions prevailing in North America, restricted domestic price increases essential to the recovery of manufacturing cost increases and restoration of eroded profit margins. The Corporation has requested the Canadian Government to initiate an investigation into the apparent dumping of wide flange beams into Canada from several offshore countries.

Although the Federal Government's Anti-Inflation Program has enjoyed some measure of success in restraining wage and salary increases to more realistic levels the marketplace has had an overriding influence in easing price inflation. Unfortunately the Anti-Inflation Program, Government policy and pronouncements related to business, and more recently political uncertainty, have contributed to a general lack of confidence in public policy in Canada which has adversely affected business confidence resulting in a climate unfavourable to capital investment. Weakness in this sector of the economy affects Algoma directly with its heavy commitment to rolled steel products for the capital goods and construction markets.

There are indications, however, that there is a growing awareness by Government in Canada of the problems of industry and the necessity for investment, but it will take strong and positive measures to improve business confidence and encourage capital investment in Canada.

These conditions have prevented Algoma from taking advantage of its large investment in increased steelmaking capacity recently installed. The achievement of a satisfactory earnings level, which is the top priority of management, is largely dependent on the attainment of a higher volume of rolled steel product shipments which will permit this new capacity to be more fully utilized, price increases necessary to restore eroded profit margins and increased efficiencies.

Since the last Report a number of senior management changes were made. John Macnamara, formerly President and Chief Operating Officer, was appointed President and Chief Executive Officer with David Holbrook remaining as Chairman. Peter M. Nixon, formerly Vice President—Mines and Services, was promoted to Group Vice President—Manufacturing and Mining, Joseph D. R. Potter, formerly Secretary, was promoted to Vice President—Corporate Services, Patrick L. Rooney was promoted to Vice President—Operations and Henry A. Smith was appointed Secretary and General Counsel.

J. D. Barrington retired as a Director during the year, having reached mandatory retirement age. Elected in 1965, Mr. Barrington, an internationally recognized authority on mining and an industrialist, devoted much time and energy to Algoma's affairs, and his wise counsel is missed. Replacing Mr. Barrington is Robert D. Armstrong, Chairman and Chief Executive Officer, Rio Algom Limited, who was elected to the Board at the Annual Meeting of Shareholders in April.

There were eleven meetings of the Board of Directors during the year, four in Montreal, five in Toronto and two in Sault Ste. Marie.

The constant efforts of employees at all levels, and the support of customers, suppliers and shareholders are gratefully acknowledged.

D. S. Holbrook

D. S. HOLBROOK
Chairman

J. Macnamara

JOHN MACNAMARA
President and Chief Executive Officer

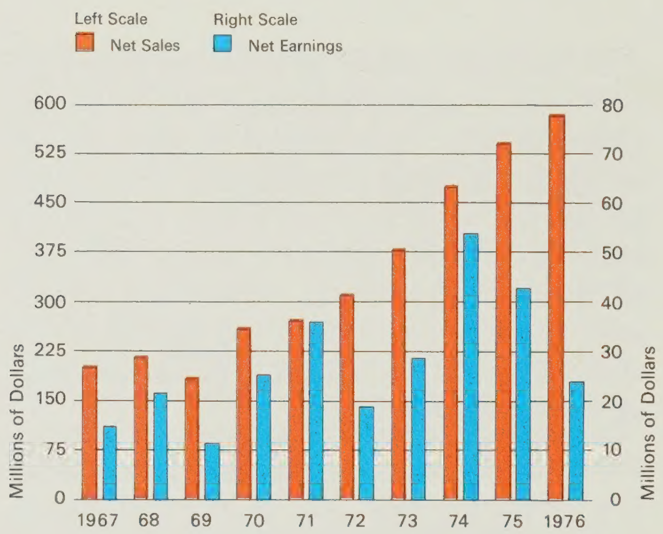
Sault Ste. Marie, Ontario
February 9, 1977.

Financial

Net earnings of $23.7 million, representing earnings of $1.69 per common share, were disappointingly low and provided a return of only 4 per cent on net sales, 5 per cent on average total investment and 5 per cent on average common shareholders' equity. Credit income taxes of $22.8 million, resulting from a combination of loss before income taxes and resource allowances on mineral profits, and $15.2 million equity in earnings of Dominion Bridge Company, Limited more than offset a loss before income taxes of $14.3 million.

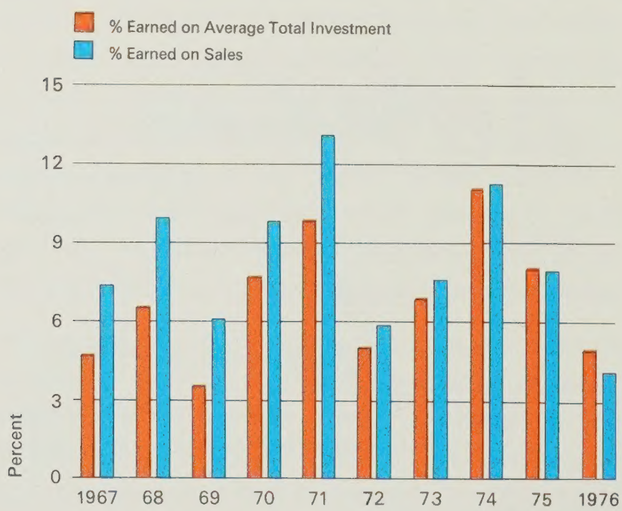
Increases in production costs, which resulted principally from higher costs of labour, coal, iron ore, energy and other supplies, exceeded added revenue from price increases on steel products resulting in the erosion of profit margins. The pre-tax loss can be directly attributed to lost production and high operating costs due to equipment problems experienced at the Steelworks. The generally weak market conditions for a number of the Corporation's products also adversely affected earnings. Interest expense was $4.8 million higher than

Net Sales and Net Earnings

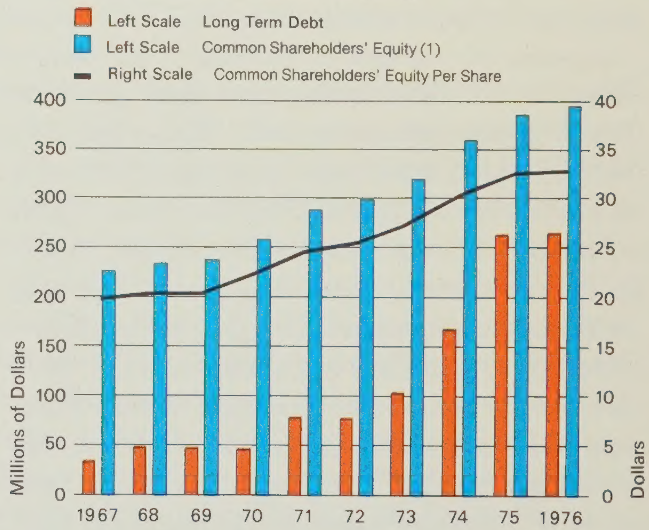


Net Earnings and Dividends Per Share

Percent Earned on Average Total Investment and on Sales



Long Term Debt and Shareholders' Equity



in 1975 and depreciation and amortization expense increased $3.7 million.

Cash flow from operations declined to $19.2 million from $49.6 million in 1975 and represented $1.30 per common share. Capital and mine development expenditures which were curtailed to $51.4 million substantially exceeded cash flow and loans increased. Manufacturing equipment for the Steelworks Division having a value of approximately $2.2 million was leased under long term leases containing purchase options. Additional funds were provided by a $60 million issue of Cumulative Redeemable Tax Deferred 8 per cent Preference Shares Series "A" sold in April.

The quarterly dividend on common shares was reduced from 35 cents to 20 cents per share in September to conserve funds and total dividends paid on the common shares were $12.8 million ($1.10 per share). Dividends paid on the preference shares amounted to $3.0 million ($1.26 per share).

Inventories were $43.9 million higher at the end of the year resulting from increased unit prices and costs and larger quantities on hand. Working capital increased $11.0 million, but the ratio of current assets to current liabilities at the year end declined to 1.5 to 1.

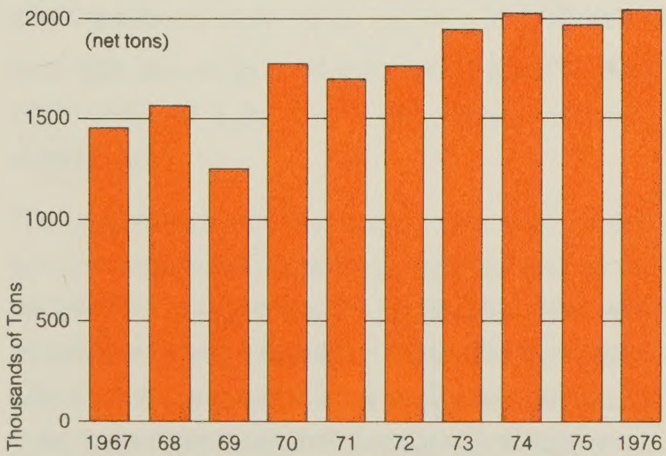
Long term investments increased $11.8 million, reflecting a $10.7 million increase in Algoma's equity in the undistributed earnings of Dominion Bridge Company, Limited and additional investment of $1.1 million in the Tilden Mine joint venture.

Sales

Apparent Canadian rolled steel consumption was down approximately 4 per cent from 1975 but raw steel production increased marginally as Canadian mill exports were up significantly over 1975 levels.

Throughout most of the year, the Corporation's steel shipments were restricted by equipment problems at the Steelworks and weak market conditions. Total shipments of steel products increased slightly to 2.04 million net tons with most

Shipments of Steel Products, 1967 to 1976



Steel Product Shipments by Product Classification, 1966 and 1973 to 1976

	1966 %	1973 %	1974 %	1975 %	**1976 %**
Plate and Sheet	44	57	55	56	**56**
Structurals	22	22	22	20	**18**
Rails and Fastenings	7	7	7	8	**9**
Bars and Grinding Media	5	5	6	6	**6**
Seamless Tubes and Skelp	13*	8	9	10	**7**
Semi-finished	9	1	1	—	**4**

*Represents shipments of tube rounds to a seamless tube producer.

of the increase attributable to the export of semi-finished steel.

Although total steel imports into Canada in 1976 were lower than in 1975, the imported tonnage of rolled structural shapes increased. In many cases imports were sold at prices considerably below published Canadian prices and it is believed below normal prices for similar steel in the country of origin. In this regard a submission has been made to the Department of National Revenue setting out evidence of dumping of Wide Flange Beams into Canada from the United Kingdom, France, Japan and South Africa and of resulting injury to the Corporation. The Department has been asked to initiate an investigation into these imports under the Anti-Dumping Act.

Demand for steel by the automotive industry and other durable goods manufacturers displayed reasonable strength in 1976 and this is expected to continue into 1977. However, the capital spending sector of the Canadian economy was very weak and there is no indication of improvement at least through the first half of 1977. The decline in activity in construction and capital goods manufacturing resulted in a decrease in shipments of structural and plate products.

In October, arrangements were completed by the Corporation to market the range of seamless tubular products manufactured by it which had formerly been sold to and marketed by the Mannesmann companies. The Mannesmann tube sales offices in Houston, Calgary and Toronto were acquired by the Corporation for this purpose. The world market for seamless casing was weak and very competitive throughout the year and high tube inventories, particularly in the United States, restricted mill demand during the year and this condition prevailed at the beginning of 1977. There are indications, however, of increased demand in the North American market in 1977.

Shipments of pig iron were slightly higher than the previous year but demand remained weak reflecting depressed conditions in the foundry industry and the continued substitution of scrap for higher priced pig iron in many foundry operations. Growth in demand for pig iron is forecast to be very gradual over the next several years.

The Corporation's prices continued to be subject to the controls of the Canadian Government's Anti-Inflation Program, however, price increases on the Corporation's rolled steel products during the year were limited in every case by market conditions.

Submissions have been made by the domestic steel industry to the Canadian Trade & Tariff Committee regarding current G.A.T.T. negotiations. These submissions noted the industry's concern with the negative effects on the Canadian primary steel industry of the lowering of Canadian tariffs on rolled steel products.

Considerable progress was made in preparation for the introduction of the metric system to the marketing of various rolled steel products commencing in 1978.

Raw Materials

Iron ore from captive sources was in surplus supply and excess tonnage was sold. Illegal strikes and high absenteeism in the West Virginia coal industry restricted coal supply from the Corporation's mines and necessitated purchase of significant tonnages of metallurgical coal on the open market.

Cannelton Industries, Inc. produced 2.06 million tons of metallurgical coal and 170 thousand tons of steam coal. Coal production capability of the new Maple Meadow Mine increased, but at a slower rate than expected due to labour unrest and to difficult mining conditions which are being over-

come. The addition of fine coal cleaning facilities at the Indian Creek preparation plant improved quality and yield. Timing of expansion of the Indian Creek Mine is being re-evaluated in light of restricted capital expenditures, decreased steel demand and increased availability of metallurgical coal on the open market. Overall quality of coal delivered to the Steelworks was substantially better than in 1975.

Operations at the Algoma Ore Division were restricted throughout the year to match Steelworks requirements. Sinter production at 1.70 million gross tons was approximately at the same level as in 1975. Deepening of the MacLeod Mine shaft was completed and development work required for deeper underground mining is progressing on schedule for completion of this project in mid-1979.

Captive iron ore pellet production from Steep Rock Iron Mines Limited totalled 1.15 million gross tons. Iron ore reserves leased from Steep Rock by Algoma are expected to be exhausted by the end of 1979 at which time pellet production for Algoma will cease unless another ore source is located and developed. Steep Rock and Algoma are investigating the potential of another iron ore property near Atikokan.

Tilden iron ore joint venture operations improved dramatically and pellet production totalled 4.15 million gross tons compared to designed capacity of 4.0 million gross tons. Work on expansion of the Tilden operation resumed at mid-year. Expected completion of expansion in 1979 will increase Algoma's annual pellet supply from the Tilden project to a total of 3.0 million gross tons.

Investigation and evaluation of Northwestern Ontario iron reserves controlled by Algoma and others continued in 1976. The future of iron ore mining in Ontario depends on ultimate development of these reserves which will only occur if costs are competitive with other potential iron ore projects in the Great Lakes region.

Vessel movement of iron ore and coal on the Great Lakes was forced to conclude at an earlier date than in recent years due to cold weather, early ice formation and lack of vessels. Improvement in equipment and procedures will be necessary before navigation throughout the winter season can be considered economical and reliable.

Operations

Iron and raw steel production increased to new high levels of 2.81 and 2.89 million net tons, respectively.

The combination of better quality coke and iron ore and the substitution of homogenized oil and tar for coke improved blast furnace production rates and resulted in fuel efficiencies. Improved operating procedures in No. 2 basic oxygen steelmaking plant extended vessel lining life appreciably. A second charging crane was installed in this plant to ensure uninterrupted steel production. Raw steel production in No. 1 basic oxygen steelmaking plant was limited to tonnage for the continuous casting plant and small ingot order quantities.

Production through the plate and wide strip mill was restricted from April through August when the two slab reheating furnaces were successively rebuilt. Higher production rates, improved product quality and fuel economies were realized following the reheating furnace rebuilds. Further cost savings were made by rolling selected orders of hot-rolled coils directly from ingots.

A new flame cut bay which came into service in May will increase capacity to process and ship greater tonnage from the 166-inch plate mill. A new heavy duty structural roller straightener began operating in October. This unit is capable of straightening the full product range of wide flange beams and will improve product quality, reduce finishing costs and permit more efficient rolling mill section changes.

Although market conditions resulted in reduced production of light structurals and wide flange beams, a strong rail program helped to fill out rolling mill schedules. Seamless tube production declined some 20 per cent from the previous year's record tonnages due to market conditions and the planned additional tube finishing capacity at the Dafter, Michigan tube finishing plant was deferred.

For the second consecutive year the Canadian Furnace Division at Port Colborne operated at less than 50 per cent of capacity. As no significant improvement in demand for merchant pig iron is expected over the next few years, this facility will be shut down in March 1977 for an indefinite period and merchant pig iron will be produced thereafter at the Steelworks in Sault Ste. Marie.

Steel production was adversely affected in June when iron supply was reduced due to the shutdown of No. 7 blast furnace for three weeks to repair hydraulic equipment at the top of the furnace which was damaged by fire. To minimize loss of production, No. 4 blast furnace was returned to service and kept in operation until after No. 6 blast furnace reline was completed in December.

No. 9 coke oven battery, which came into production in November 1975, was taken out of service in October for refractory repairs which proved to be unsuccessful. Further examination showed that major rebuilding of the battery was necessary. Shortly after year-end a contract to carry out the required rebuild was awarded to the builder of the battery and work commenced on the rebuild and is expected to take twelve months to complete. Discussions with the builder to settle responsibility for the cost of the repair and the rebuild were unsuccessful. Following the year-end legal action was commenced against the builder under which the Corporation will seek to recover certain costs paid by it for the unsuccessful repairs, the cost of the rebuild, estimated at approximately $18.5 million, and other damages. It is expected that sufficient coke will be produced at the Steelworks to meet 1977 forecast production of finished rolled steel products.

The new coke oven by-product plant and water quality improvement facilities were nearing completion at year-end and were scheduled to be started up and brought into full service in early 1977. The water quality facilities which prevent contaminants originating in the cokemaking process from entering the St. Mary's River have been constructed at a cost of approximately $9 million and constitute fulfillment of a major commitment in the Corporation's environmental control and improvement program. Further projects in this program related to coke plant emissions are planned as part of the Corporation's capital expenditures over the next several years.

Work continued to be suspended on the new No. 10 coke oven battery planned as a replacement for No. 5 battery which has been in continuous service since 1942. Due to lower than previously forecast coke requirements over the next several years the rebuilding of No. 5 coke oven battery is currently being investigated as a less costly alternative to constructing No. 10 battery.

As a consequence of the restriction of capital expenditures and the resulting deferral of planned projects the only major projects at the Steelworks Division underway or to be completed in 1977 are the rebuild of No. 9 coke oven battery, the reline of No. 5 blast furnace and certain environmental control facilities. Completion of the continuous slab

casting plant has been further deferred and start-up is now planned for mid-1979.

Research and development programs were aimed at widening the application of high strength steels developed by the Corporation. In the sheet market, this included research into the application of high strength steels for automotive bodies and bumpers. Developments with respect to plate were directed to employing 166" mill technology to produce high strength, notch tough plate for application in the as-rolled condition in high strength oil and gas pipe lines.

A computerized Primary Steel Processing Information System is being implemented on a planned basis in the primary facilities at the Steelworks. This is expected to result in improved equipment utilization, other operating efficiencies and to provide accurate, up-to-date information on work in process.

Employee Relations

A new three-year collective agreement effective March 1, 1976 was signed with the union representing production and maintenance employees at the Tube Division. The agreement was generally based on 1975 contracts covering employees at the Steelworks Division and it was approved without amendment by the Anti-Inflation Board.

The pension plan covering staff and supervisory personnel was revised effective January 1, 1976. In addition to improvement of pension benefits, including those applicable to employees who elect to retire early, a survivor benefit previously provided by an insurance plan was incorporated in the revised pension plan.

At the Steelworks and Tube Divisions there was a three fold reduction in accident severity rates. Severity rates reflect the number of days lost because of accidents, relative to the number of hours worked.

A "100 Per Cent Eye Protection" program was instituted requiring all employees to wear approved eye protection at all job locations except offices. There was a reduction of 24 per cent in the number of eye injuries compared to the previous year, and the number of employees whose eyesight was probably saved because of eye protection exceeded the accumulated total for the preceding three years.

Labour-Management relations at the Steelworks were generally very good. A major area of activity continued to be in connection with occupational health and the working environment. A comprehensive program involving the application of effective new technology was undertaken to deal with the environment in which cokemaking personnel are required to work. Protection of employees was enhanced by the increased use of respirators, by reducing exposure time and by regular medical examinations. Details of this program have been supplied to employees and a special company-union monitoring committee has been set up.

Occupational health and work environment programs have been assisted by the appointment of an Industrial Hygienist and the establishment of a laboratory to monitor working conditions which might have an effect on the health of employees.

An intensive program was undertaken with front line supervision to improve communications, resolve areas of concern in regard to total remuneration and to ensure effective participation by these personnel in company management.

Earnings and Retained Earnings

For the Years Ended December 31, 1976 and 1975

		1976	1975
		(Thousands of Dollars)	
Income	Sales	**$584,835**	$541,463
	Other	**596**	385
		585,431	541,848
Expenses	Cost of products sold	**525,199**	460,741
	Administrative and selling	**14,145**	12,904
	Interest and expense on long term debt	**23,081**	19,150
	Interest on short term loans	**4,239**	3,395
	Depreciation and amortization	**33,036**	29,331
		599,700	525,521
Earnings (Loss)	Before income taxes	**(14,269)**	16,327
Income Taxes (note 2)	Current	**723**	430
	Deferred	**(23,546)**	(10,971)
		(22,823)	(10,541)
Earnings	Before equity in earnings of associated company and extraordinary items	**8,554**	26,868
	Equity in earnings of associated company	**15,170**	10,589
	Before extraordinary items	**23,724**	37,457
Extraordinary Items		**—**	5,354
Net earnings		**$ 23,724**	$ 42,811
Earnings per Common Share	Before equity in earnings of associated company and extraordinary items	**$ .39**	$ 2.30
	Before extraordinary items	**$ 1.69**	$ 3.21
	Net earnings	**$ 1.69**	$ 3.67
Retained Earnings	Balance at beginning of year	**$373,086**	$346,613
	Net earnings	**23,724**	42,811
	Dividends (note 12)	**(16,405)**	(16,338)
	Expenses relating to issue of preference shares (after deducting income taxes of $430)	**(1,739)**	—
	Balance at end of year	**$378,666**	$373,086

Financial Position

As at December 31, 1976 and 1975

		1976	1975
		(Thousands of Dollars)	
Current Assets	Accounts receivable	**$ 83,999**	$ 84,286
	Inventories (note 3)	**174,835**	130,957
	Prepaid expenses	**5,674**	4,794
	Total current assets	**264,508**	220,037
Current Liabilities	Cheques outstanding less cash on deposit	**14,315**	13,852
	Bank loans	**22,500**	—
	Bankers acceptances	**—**	30,000
	Promissory notes	**40,000**	11,311
	Accounts payable and accrued	**85,734**	76,874
	Taxes payable	**6,793**	6,588
	Long term debt due within one year	**5,894**	3,086
	Total current liabilities	**175,236**	141,711
Working Capital	Current assets less current liabilities	**89,272**	78,326
Long Term Assets	Regional incentive grant receivable (note 4)	**6,350**	5,525
	Long term investments (note 5)	**94,399**	82,625
	Net fixed assets (note 6)	**560,395**	539,666
	Unamortized debenture expense	**2,596**	2,748
	Total long term assets	**663,740**	630,564
Total Investment	Working capital plus long term assets	**753,012**	708,890
Long Term Liabilities (notes 7 and 8)	Long term debt (note 9)	**264,238**	260,226
	Accrued past service pension cost (note 10)	**14,081**	15,599
	Deferred income taxes	**23,944**	47,919
	Total long term liabilities	**302,263**	323,744
	Excess of total investment over long term liabilities	**$450,749**	$385,146
Shareholders' Equity	Capital stock (note 11)		
	Preference shares	**$ 60,000**	$ —
	Common shares	**12,083**	12,060
	Retained earnings	**378,666**	373,086
	Total shareholders' equity	**$450,749**	$385,146

On behalf of the Board:

W. J. STENASON, Director J. MACNAMARA, Director

Changes in Financial Position

For the Years Ended December 31, 1976 and 1975

		1976	1975
		(Thousands of Dollars)	
Funds Were Provided By	Cash flow from operations		
	Earnings before equity in earnings of associated company	**$ 8,554**	$ 26,868
	Transactions not resulting in an outlay or receipt of funds	**6,146**	18,841
	Dividends received from associated company	**4,482**	3,907
		19,182	49,616
	Capital gain on sale of lake vessel (before income taxes of $982)	**—**	4,492
	Undepreciated cost of assets sold	**224**	1,517
	Regional incentive grant	**—**	640
	Net proceeds from long term loans	**10,686**	95,152
	Net proceeds from issue of preference shares	**57,831**	—
	Other—net	**86**	284
		88,009	151,701
Funds Were Applied To	Additions to fixed assets		
	Manufacturing plants	**33,523**	84,086
	Recoverable from regional incentive grant	**825**	1,825
		34,348	85,911
	Raw material properties	**17,033**	18,612
		51,381	104,523
	Long term investments	**1,085**	6,035
	Reduction of long term debt	**6,674**	3,546
	Reduction of accrued past service pension cost	**1,518**	(155)
	Dividends (note 12)	**16,405**	16,338
		77,063	130,287
Working Capital	Increase during year	**10,946**	21,414
	Balance at beginning of year	**78,326**	56,912
	Balance at end of year	**$ 89,272**	$ 78,326

Changes in Working Capital

		1976	1975
Current Assets Increase (Decrease)	Short term investments	**$ —**	$ (41)
	Accounts receivable	**(287)**	20,052
	Regional incentive grant receivable	**—**	(4,160)
	Inventories	**43,878**	37,158
	Prepaid expenses	**880**	928
		44,471	53,937
Current Liabilities (Increase) Decrease	Cheques outstanding less cash on deposit	**463**	(979)
	Bank loans	**22,500**	—
	Bankers acceptances	**(30,000)**	30,000
	Promissory notes	**28,689**	6,043
	Accounts payable and accrued	**8,860**	(6,091)
	Taxes payable	**205**	1,821
	Long term debt due within one year	**2,808**	1,729
		33,525	32,523
Working Capital	Increase during year	**$ 10,946**	$ 21,414

Notes To Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements consolidate the accounts of all subsidiary companies. Assets, liabilities and results of operations of United States subsidiaries are included assuming $1 Canadian equal to $1 United States; if these were converted to the actual Canadian dollar equivalent, there would be no material effect on these financial statements.

Inventories

Finished products and work in process are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost.

Long Term Investments

The investment in the associated company, Dominion Bridge Company, Limited, is accounted for by the equity method. The investment in the joint venture producing iron ore pellets is valued at cost.

Fixed Assets

Property, plant and equipment are valued at cost. Expenditures for betterments and renewals which extend economic life and for mine development are capitalized. Maintenance and repairs are charged to expense as incurred excepting expenditures on periodic relines of blast furnaces which are accrued for in advance on a unit of production basis.

Depreciation of manufacturing plant and equipment is provided on a straight line basis at rates intended to write off these assets over their estimated economic lives. Mining equipment and mine development costs are amortized on a unit of production basis over the estimated recoverable iron ore and coal reserves.

Interest incurred on funds borrowed directly to finance the development of new raw material properties is capitalized during the period of construction and initial development. Such interest is included in the charge to earnings for depreciation and amortization when production commences in commercial quantities.

Exploration, Research, Development and Start-up Expense

Expenses in exploring for raw materials, investigating and holding raw material properties and costs of research, development and start-up of new production facilities are charged to earnings as incurred.

Incentive Grants

Assistance relating to the acquisition of plant and equipment is accrued on the basis of expenditures made and is deducted from the cost of the related asset. Accordingly depreciation charged to earnings is based on the net cost of the asset. Assistance relating to research, development and training activities is applied to reduce costs in the year incurred.

Income Taxes

Income taxes are provided for on the tax allocation method. Since regulations in Canada and the United States permit the deduction of expenses in calculating taxable income which may not correspond with amounts recorded for financial reporting, income taxes charged to earnings may differ from those currently payable. Income taxes charged to earnings, in excess of those currently payable, are shown as Deferred Income Taxes in the financial statements. Investment tax credits are accounted for by the flow-through method.

2. INCOME TAXES

The loss before income taxes, together with depletion and resource allowances, is available to apply against future years' earnings resulting in an income tax credit in 1976 which has reduced the deferred income taxes in the statement of Financial Position. $19.3 million of these deferred income taxes remains as at December 31, 1976 in respect of the operations in which the loss has occurred.

Investment tax credits applied in reduction of 1976 income taxes amounted to $1.1 million. Unused investment tax credits available for reduction of income taxes in the statement of Earnings in the years 1977 to 1983 amount to $4.9 million.

3. INVENTORIES

	1976	1975
	(millions of dollars)	
Finished products	**$ 32.9**	$ 19.8
Work in process	**46.7**	36.2
Raw materials and supplies	**95.2**	75.0
	$174.8	$131.0

4. REGIONAL INCENTIVE GRANTS

The Federal Government has approved regional economic expansion incentive grants totalling $12 million

to assist in the construction of certain facilities. Grants earned to December 31, 1976 amounted to $11.1 million of which $.8 million was accrued in 1976 and $4.8 million has been received.

5. LONG TERM INVESTMENTS

	1976	1975
	(millions of dollars)	
Associated company, at cost of capital stock and equity in undistributed earnings	**$ 72.2**	$ 61.5
Joint venture, at cost (note 7)	**19.8**	18.7
Other, at cost	**2.4**	2.4
	$ 94.4	$ 82.6

6. FIXED ASSETS

	1976	1975
	(millions of dollars)	
Property, plant and equipment at cost:		
Manufacturing plants	**$779.6**	$748.1
Raw material properties	**148.0**	131.4
	927.6	879.5
Accumulated depreciation, depletion and amortization	**367.2**	339.9
	$560.4	$539.6

7. COMMITMENTS

(a) A subsidiary of the Corporation is participating in a joint venture producing iron ore pellets and is committed to pay its share of production and financial costs and of funds for debt retirement. Annual requirements to service its share of long term debt will average $7.1 million during the next five years. The Corporation has entered into agreements under which it may be called upon to invest amounts in the subsidiary which would be available to meet such commitments.

An expansion of the production facilities is in progress to be financed by advances from the participants and further long term borrowings. The subsidiary is committed to make its share of advances aggregating an estimated $15.9 million during the next three years and to provide funds estimated at an average of $15.3 million per year during the five years commencing in 1980 to service its share of the further long term borrowings. This commitment is currently guaranteed by the Corporation.

(b) Commitments of approximately $15.3 million are outstanding at December 31, 1976 for expenditures on property, plant and equipment.

8. LONG TERM LEASES

Rentals under long term leases amounted to $7.8 million in 1976 and future minimum annual rentals will be approximately $6.9 million during the next five years. These rentals result principally from the lease of steel processing plant and equipment under agreements which contain options to purchase and of raw material properties.

9. LONG TERM DEBT

	1976	1975
	(millions of dollars)	
Debentures (a)		
5¼% series A maturing 1978	**$ 10.8**	$ 11.6
7⅜% series C maturing 1987	**24.0**	25.2
8¾% series D maturing 1991	**32.7**	34.0
10⅜% series E maturing 1994	**50.0**	50.0
11 % series F maturing 1995	**65.0**	65.0
8½% notes maturing 1991 (b)	**22.0**	22.0
Note maturing 1980 (b)	**5.5**	—
Bank loans under revolving credit (c)	**4.0**	4.3
Bank loans under revolving credit (d)	**50.0**	35.0
Short term promissory notes (d)	**—**	15.0
Note maturing 1977 (e)	**5.5**	—
Other	**.6**	1.2
Total amount outstanding	**270.1**	263.3
Less due within one year	**5.9**	3.1
	$264.2	$260.2

Sinking fund and other repayment requirements in each of the next five years commencing in 1977 will be (in millions of dollars): $6.7, $16.5, $13.1, $14.9 and $14.4.

(a) The debentures rank pari passu and are secured by a Trust Indenture containing a first floating charge on all assets of the Corporation in Ontario. At December 31, 1976, $.8 million of debentures are redeemed and are to be applied to meet 1977 sinking fund requirements.

(b) These notes are secured by a mortgage on a coal mine property. The note maturing in 1980 bears interest at rates varying with the lender's minimum commercial lending rate.

(c) The remaining amount available under this line of credit for development of this coal mine is $7.0 million. This amount, when borrowed, and the outstanding $4.0 million bank loans are to be converted into a term loan maturing in 1982 bearing interest at rates varying with the lender's minimum commercial lending rate.

(d) This line of credit permits up to $50 million loans, bankers acceptances and short term promissory notes to be converted until December 31, 1977 into term loans maturing beyond 12 months but not beyond seven years. Accordingly, $50 million of bank loans are classified as long term debt and the remaining $22.5 million of bank loans are classified as current debt. The bank loans are secured by assignment of trade accounts receivable and inventories.

(e) The note bears interest varying with the prime commercial bank rate of the lender and one half of the principal amount is renewable to mature in 1978.

10. PENSIONS

Estimated unfunded liability for pensions earned by past service is $93.2 million which includes an increase

of $1.4 million resulting from 1976 revisions in pension agreements and is comprised of the following:

	1976	1975
	(millions of dollars)	
Included in current liabilities ...	**$ 9.5**	$ 7.1
Included in long term liabilities ..	**14.1**	15.6
Not recorded in statement of Financial Position	**69.6**	69.7
	$93.2	$92.4

Pension costs charged to earnings include those arising from current service, interest on the total unfunded past service liability and annual payments in respect of the $69.6 million not recorded as liabilities in the statement of Financial Position. It is planned that future payments will discharge the total unfunded past service liability by 1991.

11. CAPITAL STOCK

(a) Preference shares
Authorized—8,000,000 shares of $25 par value, by Articles of Amendment dated March 23, 1976.

Issued—2,400,000 8% cumulative redeemable tax deferred preference shares Series A at par for cash in April, 1976. Annual dividends of $2.00 per share payable quarterly out of the Corporation's tax-paid undistributed surplus on hand and 1971 capital surplus on hand (as defined in the Income Tax Act) which at December 31, 1976 are estimated at approximately $214,000,000. Redeemable after June 1, 1981 at the option of the Corporation at a premium of $1.25 per share and at reduced amounts thereafter. Exchangeable after September 1, 1988 at the option of the holder into 9¾% cumulative redeemable preference shares Series B on which dividends will be taxable. Commencing June 1, 1979, up to 120,000 Series A or B shares must be purchased in each twelve month period to the extent that they are available at market prices not exceeding $25 per share.

(b) Common shares
Authorized—30,186,704 shares without par value which were designated as common shares by Articles of Amendment dated March 23, 1976.

Issued—11,671,728 shares at December 31, 1976 (11,670,228 at December 31, 1975). During 1976, 1,500 shares were issued for $23 thousand cash under the stock option plan. There are unexercised options at December 31, 1976 on 19,400 shares at $15.19 per share terminating in 1979.

12. DIVIDENDS

(a) As long as series A debentures are outstanding, the Corporation must meet certain financial requirements before paying dividends or reducing share capital and these requirements are exceeded by a substantial amount.

(b) Dividends declared and related taxes were as follows:

	1976	1975
	(thousands of dollars)	
Preference shares		
(issued April 13, 1976)		
$1.26 per share in 1976	**$ 3,032**	$ —
Related tax*	**535**	—
Common shares		
$1.10 per share in 1976		
and $1.40 in 1975........	**12,838**	16,338
	$16,405	$16,338

*A special 15% tax to create tax-paid undistributed surplus from which dividends on preference shares were paid.

13. REMUNERATION

Total remuneration of directors and senior officers amounted to $1.4 million.

14. ANTI-INFLATION PROGRAM

The Corporation is subject to and believes it has complied with controls over prices, profit margins, compensation and dividends under the Federal Government anti-inflation program.

Auditors' Report to the Shareholders

We have examined the consolidated statement of financial position of The Algoma Steel Corporation, Limited as at December 31, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors of the associated company and its subsidiaries whose earnings have been included on the equity basis in these financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Sault Ste. Marie, Ontario
February 2, 1977.

"PEAT, MARWICK, MITCHELL & CO."
Chartered Accountants

Ten Year Summary of Consolidated Operating and Financial Data

(tons in thousands and dollars in millions excepting per share data)

			1976	1975
Operations	Production—Iron Ore (1)	G.T.	**4,089**	3,478
	—Coal (2)	N.T.	**2,235**	2,425
	—Coke	N.T.	**1,539**	1,294
	—Iron	N.T.	**2,806**	2,624
	—Raw Steel	N.T.	**2,888**	2,748
	Shipments—Steel Products	N.T.	**2,036**	1,968
Earnings and Related Statistics	Sales	$	**584.8**	541.5
	Earnings Before Income Taxes	$	**(14.3)**	16.3
	Income Taxes	$	**(22.8)**	(10.6)
	Equity in Earnings of Associated Company	$	**15.2**	12.4
	Net Earnings	$	**23.7**	42.8 (
	Dividends Paid:			
	On Preference Shares and Related Taxes	$	**3.6**	
	On Common Shares	$	**12.8**	16.3
	Earnings Retained in Business	$	**7.3**	26.5
	Cash Flow From Operations	$	**19.2**	49.6
	Per Common Share—Net Earnings	$	**1.69**	3.67
	—Cash Flow From Operations	$	**1.30**	4.25
	—Dividends Paid	$	**1.10**	1.40
	Net Earnings as % of			
	—Sales	%	**4.1**	7.9
	—Average Common Shareholders' Equity (5)	%	**5.1**	11.5
	—Average Total Investment (6)	%	**5.3**	8.0
	Cost of Products Sold as % of Sales	%	**89.8**	85.1
	Depreciation and Amortization	$	**33.0**	29.3
Capital Expenditures	Manufacturing Facilities	$	**34.4**	85.9
	Mining Properties	$	**17.0**	18.6
	Total	$	**51.4**	104.5
Long Term Debt	Borrowings—Debentures	$		65.0
	—Other	$	**10.7**	31.4
	—Total	$	**10.7**	96.4
	Repayments	$	**6.7**	3.5
	Interest and Expense	$	**23.1**	19.2
Financial Position at Year End	Current Assets	$	**264.5**	220.0
	Current Liabilities	$	**175.2**	141.7
	Working Capital	$	**89.3**	78.3
	Net Fixed Assets	$	**560.4**	539.7
	Total Investment (7)	$	**753.0**	708.9
	Total Assets	$	**928.2**	850.6
	Long Term Debt	$	**264.2**	260.2
	Common Shareholders' Equity	$	**390.8**	385.2
	Number of Common Shares Issued (000)	No.	**11,672**	11,670
	Common Shareholders' Equity Per Share	$	**33.44**	33.00
	Number of Common Shareholders	No.	**10,542**	11,536

1974	1973	1972	1971	1970	1969	1968	1967
,165	3,217	2,961	2,797	2,667	2,343	2,942	2,407
,984	2,413	2,490	2,202	2,701	2,301	2,253	1,841
,376	1,429	1,413	1,375	1,619	1,226	1,523	1,295
,774	2,619	2,288	2,136	2,440	1,705	2,189	1,957
,763	2,650	2,426	2,360	2,495	1,725	2,261	2,073
,018	1,946	1,753	1,700	1,760	1,256	1,563	1,461
74.1	376.2	310.0	271.8	257.4	183.1	216.2	200.6
57.9	30.8	12.2	11.8	15.9	(1.5)	17.3	18.6
13.5	7.5	(.3)	.1	(6.7)	(10.5)	(2.7)	4.5
9.4	5.3	5.9	2.7	3.0	2.2	1.6	1.7
53.8	28.6	18.4	35.9 (4)	25.6	11.2	21.6	14.8
15.7	7.3	5.8	5.8	5.8	10.2	11.6	11.6
38.1	21.3	12.6	30.1	19.8	1.0	10.0	3.2
89.4	57.8	32.7	51.8 (4)	36.6	19.4	35.7	35.5
4.61	2.45	1.59	3.10 (4)	2.20	.97	1.86	1.27
7.66	4.97	2.82	4.47 (4)	3.15	1.67	3.07	3.06
1.35	.625	.50	.50	.50	.875	1.00	1.00
11.3	7.6	5.9	13.2	9.9	6.1	10.0	7.4
15.8	9.2	6.3	13.3	10.4	4.8	9.4	6.6
11.0	6.9	5.0	9.9	7.6	3.6	6.6	4.7
77.8	80.8	84.8	84.7	83.4	87.7	80.9	79.4
26.1	23.5	20.6	18.9	18.3	17.5	18.6	17.6
19.0	51.5	45.4	35.0	27.3	37.8	20.8	34.8
18.6	16.0	6.6	4.1	3.7	2.6	2.4	4.2
37.6	67.5	52.0	39.1	31.0	40.4	23.2	39.0
50.0			34.0			9.3	20.7
15.5	30.7	1.2					
65.5	30.7	1.2	34.0			9.3	20.7
2.2	3.4	2.2	2.2	1.0	.1	1.9	
10.6	6.4	5.9	5.3	3.1	3.1	3.0	1.5
66.1	131.3	129.5	124.7	112.7	89.2	105.5	89.7
09.2	68.2	75.3	40.5	67.0	40.6	35.1	28.3
56.9	63.1	54.2	84.2	45.7	48.6	70.4	61.4
68.4	366.1	326.5	293.7	272.5	261.4	238.9	235.7
99.4	484.5	428.2	417.8	357.8	348.1	356.2	344.1
08.6	552.7	503.5	458.3	424.8	388.7	391.3	372.4
67.4	104.1	76.8	77.8	46.0	47.0	47.1	39.7
58.7	320.1	298.2	285.6	255.5	235.7	234.7	224.7
,670	11,635	11,595	11,595	11,608	11,608	11,608	11,608
0.73	27.51	25.72	24.63	22.01	20.31	20.22	19.36
,220	14,958	16,191	17,080	17,566	16,362	14,796	13,936

NOTES:

(1) Includes mines operated by the Corporation and its share of production from joint ventures.

(2) Metallurgical and steam coal.

(3) Includes an extraordinary gain of $3.5 million amounting to $.30 per common share.

(4) Includes an extraordinary gain of $21.5 million amounting to $1.85 per common share.

(5) Net earnings are after deduction of amount applicable to preference share dividends and related taxes.

(6) Net earnings are before deduction of interest on long term debt net of income taxes.

(7) Total assets less current liabilities.

Directors

Robert D. Armstrong†
Toronto, Ontario
Chairman and Chief Executive Officer, Rio Algom Limited

*John B. Barber
Sault Ste. Marie, Ontario
Vice Chairman and Senior Vice President, The Algoma Steel Corporation, Limited

*John D. Barrington††
Toronto, Ontario
Mining Consultant and company director

Keith Campbell
Montreal, Quebec
Vice President, Canadian Pacific Limited

*Ross Dunn, Q.C.
Toronto, Ontario
Partner, McMillan, Binch, Barristers and Solicitors

*David S. Holbrook
Sault Ste. Marie, Ontario
Chairman, The Algoma Steel Corporation, Limited

*John Macnamara
Sault Ste. Marie, Ontario
President and Chief Executive Officer, The Algoma Steel Corporation, Limited

W. Earle McLaughlin
Montreal, Quebec
Chairman and President, The Royal Bank of Canada

MacKenzie McMurray
Montreal, Quebec
Chairman, Dominion Bridge Company, Limited

*M. C. G. Meighen, O.B.E.
Toronto, Ontario
Chairman, Canadian General Investments, Limited

Paul A. Nepveu
Montreal, Quebec
Vice-President Finance and Accounting, Canadian Pacific Limited

Charles I. Rathgeb
Toronto, Ontario
Chairman and Chief Executive Officer, Comstock International Ltd.

Leonard N. Savoie
Sault Ste. Marie, Ontario
President and Chief Executive Officer, Algoma Central Railway

*W. John Stenason
Montreal, Quebec
Executive Vice President, Canadian Pacific Investments Limited

*Dr. G. Wagner
New York, N.Y., U.S.A.
Representative of Mannesmann A.G.

Honorary Director

E. Gordon McMillan, Q.C.
Toronto, Ontario
Partner, McMillan, Binch, Barristers and Solicitors

* Member of Executive Committee
† from April 15, 1976
†† to April 15, 1976

Principal Officers

David S. Holbrook
Chairman

John Macnamara
President and Chief Executive Officer

John B. Barber
Vice Chairman and Senior Vice President

Douglas Joyce
Senior Vice President

C. Carson Weeks
Senior Vice President

Peter M. Nixon
Group Vice President—Manufacturing and Mining

Ross H. Cutmore
Vice President—Finance

Samuel H. Ellens
Vice President—Administration

R. Gordon Paterson
Vice President—Engineering

Joseph D. R. Potter
Vice President—Corporate Services

Robert N. Robertson
Vice President—Sales

Patrick L. Rooney
Vice President—Operations

Henry A. Smith
Secretary and General Counsel

William J. Reed
Comptroller

Adrian M. S. White
Treasurer

Executive Offices

Sault Ste. Marie, Ontario

Works and Operations

The Algoma Steel Corporation, Limited

Steelworks Division,
Sault Ste. Marie, Ontario

Tube Division,
Sault Ste. Marie, Ontario

Canadian Furnace Division,
Port Colborne, Ontario

Algoma Ore Division,
Wawa, Ontario

Marine Division,
Sault Ste. Marie, Ontario

Works and Operations of Subsidiary Company

Cannelton Industries, Inc.,
Cannelton, West Virginia

Cannelton Coal Division

Kanawha Mines,
Cannelton, West Virginia

Pocahontas Mines,
Superior, West Virginia

Indian Creek Division,
Peytona, West Virginia

Maple Meadow Mining Company

Maple Meadow Mine,
Fairdale, West Virginia

Cannelton Iron Ore Company

Algoma Tube Corporation,
Dafter, Michigan

Incorporation

Under the laws of the Province of Ontario

Share Transfer Agents and Registrars

Montreal Trust Company, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

The Royal Bank of Canada Trust Company, New York

Shares Listed

Montreal, Toronto and Vancouver stock exchanges

Trustee for Debentures

Montreal Trust Company, Toronto, Ontario

Registrar for Debentures

Montreal Trust Company, Montreal, Toronto, Winnipeg and Vancouver

Sales Offices

Rolled Steel Products

Sault Ste. Marie, Ontario
Saint John, New Brunswick
Montreal, Quebec
Toronto, Ontario
Hamilton, Ontario
Windsor, Ontario
Winnipeg, Manitoba
Vancouver, British Columbia

Seamless Pipe and Tubes

Toronto, Ontario
Calgary, Alberta
Houston, Texas*

*Algoma Tube Corporation

Products

Algoma Sinter
Coke
Coal Tar Chemicals
Pig Iron
Ingots, Blooms, Billets and Slabs
Wide Flange Shapes
Welded Wide Flange Beams and Columns
H-Bearing Piles
Standard Angles, Channels and Beams
Elevator Tees
Zees and Special Car Building Sections
Bevelled Edge Grader Blade Bars
Heavy and Light Rails
Tie Plates and Splice Bars
Hot Rolled Bars
Reinforcing Bars
Forged Steel Grinding Balls
Grinding Rods
Hot Rolled Sheet and Strip
Cold Rolled Sheet and Strip
Plate
- Sheared and Gas Cut
- Universal Mill
- Floor

Seamless Pipe and Tubes
- Oil Well Casing
- Line Pipe
- Standard Pipe
- Mechanical Tubing
- Coupling Stock

ALGOMA STEEL

ALGOMA
STEEL